CLIMATE RISK ADAPTATION AND INSURANCE IN THE CARIBBEAN

INNOVATION & TECHNOLOGY

SUBJECT *High transaction costs of serving low-income clients in developing and emerging market economies demand innovative approaches and technological advancements.*

Challenges that make insurance more costly include data collection, processing and management, premium payment mechanisms as well as claims verification and settlement.

Index insurance products, mobile payment devices or more accurate weather and agricultural-yield information based on satellite data are examples for innovative approaches that can help lower some of these costs.

CHALLENGES IN THE CARIBBEAN *Vulnerability to climate change can drive low-income communities deeper into poverty in the long run. Improving their ability to respond to, and cope with climate change related shocks can increase social resilience and decrease vulnerability.* Therefore, by establishing a mobile phone text message that alerts insurance policy holders to approaching extreme weather events, the project has sought to improve the risk management capacities of target communities.

CHALLENGES RELATED TO THIS OBJECTIVE ARE:

1. Close cooperation between the local insurers and national disaster management agencies is required: Information of an approaching extreme weather event is passed on by the disaster management agency to the insurer.

2. Trust-building between the national disaster management agencies and the insurers for better coordination.

3. Insurers are wary of reputational risk if policy holders do not receive the extreme weather event information on time.

4. Insurers do not acknowledge the additional value-added of early warning via SMS as they believe that there is enough information related to extreme weather events broadcast by the national authorities.

SOLUTION

1. Workshops conducted for the staff of the national disaster management agencies to educate them about parametric index insurance and its role in managing weather related risks

2. Facilitated dialogue between the local insurers, national disaster management agencies and regional disaster and emergency management organization

3. Engaged ministries of climate change/sustainable development/ local government to build consensus and gain momentum

LESSONS LEARNED

1. Openness to new technologies can be hard to build; commitment needs to come from the highest levels of partner organizations; getting buy-in from different stakeholders can be a drawn out process

2. Product features and technical aspects should ideally be signed off by project partners owning the relevant experience

3. Introducing new technologies can sometimes create resistance within partner organisations due to various reasons; when linking any insurance solution to disaster risk reduction activities, it is helpful to consider a multitude of approaches to ultimately find the right fit that would also create added value for policy holders.

NAME:
Climate Risk Adaptation and Insurance in the Caribbean

DURATION:
March 2011 – March 2014

NAME OF COMPONENT ACTIVITY:
Linking the Livelihood Protection Policy to coherent Disaster Risk Reduction approaches to improve the social resilience of at-risk, low-income communities

PROGRAM AREA:
Caribbean: Saint Lucia, Grenada, Jamaica

COOPERATION:
Caribbean Catastrophe Risk Insurance Facility (CCRIF)
MicroEnsure, Munich Re

LOCAL PARTNER:
CCRIF

LOCATION:
Saint Lucia, Grenada, Jamaica

TARGET GROUP:
Low-income, vulnerable communities exposed to climate changerelated shocks that would have a negative impact on livelihoods

DOCUMENTATION:
www.climate-insurance.org

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